

**AUDIT COMMITTEE CHARACTERISTICS AND AUDIT QUALITY IN A LESS REGULATED
ENVIRONMENT: EVIDENCE FROM AUDIT PRICING IN AIM**

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ABSTRACT

The Alternative Investment Market (AIM) was established in 1995 by the London Stock Exchange and, partly due to its more relaxed admission rules and reduced regulation, has established itself as an important part of the UK quoted company sector. Despite AIM's growing importance relatively little academic attention has focused on AIM companies with a particular paucity of work in the context of auditing and financial reporting. This study seeks to address this gap by investigating the impact of a range of audit committee characteristics in relation to one proxy for audit quality – audit pricing. The absence of a corporate governance code for AIM companies means that, unlike their fully listed counterparts, there are no disclosure requirements relating to the existence and composition of audit committees. This then provides a fascinating opportunity to ascertain whether audit committee characteristics influence the quality of auditing undertaken in AIM firms. Specifically, following closely existing research in fully listed firms, we undertake an analysis of the impact of audit committee size, independence and expertise on the level of audit fees paid by 290 AIM firms who disclose detailed data on their audit committees. In summary, we find that the presence of an executive director on the audit committee has a significant and negative impact on audit fees while the presence of greater financial expertise has a positive impact. The link between reduced audit committee independence and lower audit fees is consistent with the notion that a lack of independence serves to reduce the extent of audit intensity, resulting in a lower quality audit. The positive impact of expertise on audit fees is consistent with greater expertise ensuring that audits are more comprehensive and resulting in a higher quality audit. Both of these findings are consistent with prevailing regulations relating to listed firms whereby greater audit committee independence and expertise are encouraged.

Key Words: AIM; Audit Committee; Audit Fees; Independence; Expertise.

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